

No. 10 /37/DPM

Jakarta, November 13, 2008

CIRCULAR LETTER

To

ALL COMMERCIAL BANKS AND BROKERS
IN INDONESIA

Subject : Government Bond Reverse Repo Transactions with Bank Indonesia
in Open Market Operations

In the implementation of one of Open Market Operation activities through selling and buying of securities in the form of Government Bond by Reverse Repo as regulated in Bank Indonesia Regulation Number 4/9/PBI/2002 dated November 18, 2002, concerning Open Market Operations (State Gazette of the Republic of Indonesia Number 126 of 2002, Supplement to the State Gazette of the Republic of Indonesia Number 4243) as amended for the last time by Bank Indonesia Regulation Number 10/21/PBI/2008 dated October 15, 2008 (State Gazette of the Republic of Indonesia Number 147), it is deemed necessary to draft provisions on Government Bond reverse repo transactions with Bank Indonesia in Open Market Operations in a Bank Indonesia Circular Letter as follows.

I. GENERAL PROVISIONS

Terminologies used in this Circular Letter are defined as follows.

1. Bank is a Commercial Bank as referred to in Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998 conducting business on conventional basis.

2. Broker ...

2. Broker is a rupiah and foreign exchange money market brokerage company and a securities company designated by the Minister of Finance of the Republic of Indonesia as a participant in Government Bond auction in the primary market.
3. Open Market Operation, hereinafter to be referred to as OMO, is a transaction activity in the money market conducted by Bank Indonesia with Banks and other parties in the effort of monetary management.
4. Government Bond, hereinafter to be referred to as SUN, is a securities in the form of promissory note as referred to in applicable laws concerning Government Bond.
5. Auction Participant is a Bank which puts in bids for for its own behalf and/or Broker which puts in bids for Banks.
6. SUN Reverse Repo Transaction, hereinafter to be referred to as RR-SUN, is a SUN reverse repo transaction by Bank to Bank Indonesia with obligation to sell back at a price and tenor as agreed.
7. Reverse Repo Rate, hereinafter to be referred to as RR-Rate, is an interest rate to be paid by Bank Indonesia on SUN buying transaction by Bank by Reverse Repo.
8. Bank Indonesia – Real Time Gross Settlement System, hereinafter to be referred to as BI-RTGS System, is a system for electronic fund transfer among BI-RTGS System members in the Rupiah as referred to in provisions regulating the BI-RTGS System.
9. Bank Indonesia - Scripless Securities Settlement System, hereinafter to be referred to as BI-SSSS, is a system that provides transaction facilities with Bank Indonesia including its administration and electronic securities administration as referred to in provisions regulating the BI-SSSS.
10. Central Registry is Bank Indonesia which performs functions as the Securities administrator for Bank, Sub-Registry, and other parties approved by Bank Indonesia.

11. Fund Settlement is a debiting and crediting on demand deposit account between Bank Indonesia and Banks holding demand deposit account with Bank Indonesia through the BI-RTGS System.
12. Securities Settlement is a debiting and crediting on SUN account between Bank Indonesia and Banks holding Securities account with the Central Registry through the BI-SSSS.
13. SUN Price is a price of SUN determined by Bank Indonesia taking into account of market price of each SUN type and series as registered in the BI-SSSS and stated in percentage.
14. Haircut is a margin stipulated by Bank Indonesia as a deducting factor of Securities Price.
15. RR-SUN Price is a price of SUN deducted by a Haircut which is stated in percentage.

II. RR-SUN TRANSACTION MECHANISM

1. Bank Indonesia shall conduct RR-SUN transactions in effort of monetary contraction under auction mechanism.
2. The RR-SUN transactions as referred to in point 1 shall be conducted under sell and buyback principle with the following regulation.
 - a. On RR-SUN transactions (first leg) Bank Indonesia shall transfer ownership registration of traded SUN to Securities trading account of Bank winning auction (transfer of ownership).
 - b. On the maturity date of RR-SUN transactions (second leg) the Bank as referred to in point a shall be required to sell back the SUN to Bank Indonesia.
 - c. If Bank fails to sell back the SUN as referred to in point b, the SUN failing to be sold back by Bank shall be treated as an outright buying transaction by Bank.

3. Bank Indonesia shall determine series, Haircut, and Price of traded SUN in RR-SUN and announce it through the BI-SSSS and/or the Commercial Bank Daily Report System (LHBU System). An example of the use of Haircut in calculation of RR-SUN Price is presented in Appendix 1.
4. The RR-SUN auction mechanism as referred to in point 1 may be conducted by :
 - a. Fixed rate tender method

Bank Indonesia shall determine RR-Rate for each transaction tenor; or
 - b. Variable rate tender method

Banks shall bid RR-Rate for each quantity and transaction tenor, with a multiple of RR-Rate bid of 0.01% (one per ten thousand).
5. Transaction tenor
 - a. RR-SUN transaction with a tenor of 1 (one) day up to 1 (one) year which is stated in number of calendar days shall be counted since 1 (one) day after the transaction settlement date up to maturity date.
 - b. If the transaction maturity date is a holiday, the maturity date as referred to in point a shall be the following business day.
6. RR-SUN Auction Participant is an Auction Participant with the status of active as BI-SSSS participant and not being imposed a sanction of temporary termination to participate in OMO activities.
7. RR-SUN auction settlement shall be conducted no later than 2 (two) business days after auction date through the BI-SSSS, seamlessly interconnected with the BI-RTGS System.

III. RR-SUN TRANSACTION PROCEDURES

A. Auction

1. RR-SUN auction by Bank Indonesia may be conducted every business day.
2. Bank Indonesia, c.q. Directorate of Monetary Management-Monetary

Operation ...

Operation Bureau (DPM-BOpM) shall announce RR-SUN auction plan no later than before the auction through the BI-SSSS and/or LHBUS System and/or other facilities stipulated by Bank Indonesia.

3. The announcement on RR-SUN auction plan as referred to in point 2 shall include, among other things :
 - a. Auction window time;
 - b. Tenor;
 - c. RR-Rate if traded under fixed rate tender method or indicative target if traded under variable rate tender method;
 - d. SUN types, series, Haircut, and Prices;
 - e. Auction method;
 - f. Settlement date.
4. During the window time Auction Participants shall enter bids for RR-SUN to the DPM-BOpM through the BI-SSSS including, among other things, bids for SUN nominal quantity and RR-Rate.
5. Quantity bidding by each Bank as Auction Participant, either directly or through Broker, shall amount to no less than Rp1,000,000,000.00 (one billion rupiah) and the remainder with a multiple of Rp100,000,000.00 (one hundred million rupiah).

B. Determination of Auction Results

1. Bank Indonesia shall announce RR-SUN auction results immediately after the RR-SUN auction window time closes.
2. Results of RR-SUN auction conducted under fixed rate tender method shall be determined as follows.
 - a. Bids for transaction quantity entered by Auction Participants shall be accepted in full; or
 - b. The calculation shall be on proportional basis with a smallest rounding of Rp1,000,000.00 (one million rupiah).

An example ...

An example of application of fixed rate tender auction method, determination of auction winner, and settlement value are presented in Appendix 2.

3. Results of RR-SUN auction conducted under variable rate tender method shall be determined as follows.
 - a. Bank Indonesia shall determine highest bid for RR-Rate which may be accepted.
 - b. Transaction quantity won by Banks shall be calculated as follows.
 - 1) If the bid for RR-Rate entered by Bank is lower than the determined RR-Rate as referred to in point a, the Bank shall obtain the whole bid it entered;
 - 2) If the bid for RR-Rate entered by Bank is same with the determined RR-Rate as referred to in point a, the Bank may obtain the whole bid it entered or a portion based on calculation on proportional basis.

An example of application of variable rate tender auction method, determination of auction winner, and settlement value are presented in Appendix 3.

4. Bank Indonesia may adjust the realization of RR-SUN auction result quantity to the indicative target or cancel the RR-SUN auction.
5. If Bank Indonesia offers more than 1 (one) series of SUN in 1 (one) RR-SUN auction (general reverse repo), Bank Indonesia may determine the allocation of series and nominal value of SUN won by Banks.

IV. RR-SUN SETTLEMENT PROCEDURES

1. Bank Indonesia, c.q. Monetary Management Transaction Settlement Division (PTPM Division) shall settle RR-SUN auction through the BI-SSSS, seamlessly interconnected with the BI-RTGS System.

2. The ...

2. The RR-SUN auction settlement as referred to in point 1 shall be conducted under the following mechanism :
 - a. transaction by transaction (gross to gross) if only 1 (one) SUN series per auction (specific reverse repo); or
 - b. entire transaction (gross to net) if more than 1 (one) SUN series per auction (general reverse repo).
3. The settlement as referred to in point 1 comprises :
 - a. RR-SUN auction result settlement (first leg) including :
 - 1) Fund Settlement by debiting Rupiah demand deposit account of Bank with Bank Indonesia amounting to result of multiplication of transaction quantity won by Bank and RR-SUN Price.
 - 2) Securities Settlement by crediting Securities account of Bank with the Central Registry amounting to SUN nominal value won by Bank.
 - 3) In the event of any coupon payment for the SUN under transaction, it shall be calculated as follows.
 - a) The Fund Settlement Value as referred to in point 1) shall be added with accrued interest value which is counted since 1 (one) day after the starting date of coupon period up to RR-SUN transaction settlement date (first leg).
 - b) Coupon payment of SUN series in transaction shall be received by winning Bank by SUN unit won by the Bank.
 - c) The value of coupon as referred to in point b) shall reduce Bank Indonesia obligation on the maturity date of RR-SUN transaction (second leg) and RR-Rate value payment which shall be counted since the date of coupon payment. An example of calculation of coupon and RR-Rate value is presented in Table 3 of Appendix 2.

d. If ...

- d) If first leg Fund Settlement is conducted before the date of coupon payment notification as informed through the BI-SSSS (ex-date report), the coupon shall be received by Bank Indonesia and shall not reduce Fund Settlement value in the redemption of RR-SUN transaction on maturity.
 - 4) Bank shall be required to provide an adequate balance in Rupiah demand deposit account with Bank Indonesia for Fund Settlement.
 - 5) In the event of any failure in the provision of an adequate balance by Bank in its demand deposit account with Bank Indonesia up to the BI-RTGS System cut-off warning time bringing about a failure in RR-SUN transaction settlement, the system shall automatically cancel the transaction settlement.
- b. RR-SUN settlement on maturity (second leg) shall include :
- 1) Fund Settlement by crediting Rupiah demand deposit account of Bank with Bank Indonesia at the amount of mature first leg Fund Settlement value after deducted by coupon, if there is coupon payment on SUN series in transaction added with RR-Rate value.
 - 2) Securities Settlement by debiting Securities account of Bank with the Central Registry at the amount of nominal value of SUN under transaction in the first leg.
 - 3) Bank shall be required to provide an adequate balance of series of SUN under transaction in its Securities account with the Central Registry for Securities Settlement.
 - 4) In the event of any failure in the provision of an adequate balance of the series of SUN under transaction by Bank in its Securities account up to the BI-RTGS System cut-off warning time bringing about a failure in RR-SUN transaction settlement, the system shall automatically cancel the settlement of the mature RR-SUN transaction.

- 5) By the failure in the RR-SUN settlement as referred to in point 4), the Bank shall not receive RR-Rate value and the RR-SUN shall be treated as an outright buying transaction by Bank since the RR-SUN maturity date.
- 6) In the event of any outright transaction as referred to in point 5), Bank Indonesia shall take into account of :
 - a) accrued interest which shall be counted since 1 (one) day after the date of first leg RR-SUN transaction settlement up to RR-SUN maturity date (second leg); and
 - b) results of multiplication of transaction quantity won by Bank and SUN Price on second leg date with following provisions.
 - (1) If the second leg SUN Price is higher than the first leg SUN Price, Bank shall be charged at the amount of :
 - (a) Haircut value which has been received; and
 - (b) difference between the results of multiplication of transaction quantity won by Bank and second leg SUN Price and the results of multiplication of transaction quantity won by Bank and the first leg SUN Price.
 - (2) If the second leg SUN Price is same with or lower than the first leg SUN Price, Bank shall be charged amounting to the Haircut value it has received.
- 7) If the event of any outright transaction as referred to in point 6), the calculation as referred to in point 6) shall be charged on Rupiah demand deposit account of Bank with Bank Indonesia.

V. PROCEDURES OF IMPOSITION OF SANCTIONS

1. If case of any failure in RR-SUN transaction settlement bringing about a cancellation of RR-SUN transaction settlement as referred to in point

IV.3.a.5) ...

IV.3.a.5) or point IV.3.b.4), Bank shall be liable to OMO sanctions in the form of :

a. written warning, with a copy to :

- 1) concerned Directorate of Bank Supervision, if the sanction is imposed on a Bank which head office is located in the working area of Bank Indonesia Head Office; or
- 2) Bank Supervision Team of local Bank Indonesia Regional Office, if the sanction is imposed on a Bank which head office is located in the working area of a Bank Indonesia Regional Office; and

b. financial penalty of 1⁰/₀₀ (one per one thousand) of the nominal value of the cancelled transaction with a maximum penalty of Rp1,000,000,000.00 (one billion rupiah).

2. Any Bank cancelling OMO transactions for three times in a period of 6 (six) months, in addition to the sanctions as referred to in point 1, shall also be liable to a sanction of suspension to participate in OMO activities for 5 (five) business days.

An example of imposition of sanction of suspension to participate in OMO transactions is presented in Appendix 4.

3. The written warning as referred to in point 1.a. shall be delivered on 1 (one) business day after the cancellation of transaction.
4. The sanction of financial penalty as referred to in point 1.b shall be imposed by debiting Rupiah demand deposit account of the with Bank Indonesia on 1 (one) business day after the cancellation of transaction.
5. The sanction of suspension to participate in OMO transactions as referred to in point 2 shall be imposed on 1 (one) business day after the cancellation of transaction.
6. The transaction nominal value as referred to in point 1.b is the nominal value of SUN won by the Bank as referred to in point V.3.a.2).

VI. CONCLUDING ...

VI. CONCLUDING PROVISIONS

By the enactment of this Circular Letter, Bank Indonesia Circular Letter Number 8/5/DPM dated February 7, 2006, concerning Government Bond Reverse Repo Transactions with Bank Indonesia in Open Market Operations shall be revoked and declared no longer valid.

Provisions in this Circular Letter shall come into force as of November 13, 2008.

For the public to be informed, it is ordered that this Bank Indonesia Circular Letter be promulgated in the Official Government Gazette of the Republic of Indonesia.

Please be informed accordingly.

BANK INDONESIA,

EDDY SULAEMAN YUSUF
DIRECTOR OF MONETARY MANAGEMENT